Advancing Prosperity

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MILLENNIUM CHALLENGE CORPORATION
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Foreword

MCC CEO Daniel W. Yohannes at the closeout of the Honduras Compact.

One of the most powerful moments as the Millennium Challenge Corporation's chief executive officer has been my trip to Honduras in September 2010.

It was MCC's first compact completion, and our staff was thrilled to reach that milestone. Even more excited were the hundreds of Hondurans who joined us at a celebration in Comayagua. A student marching band played festive music, and residents approached me to talk about the positive impact MCC's investments made on their lives.

It was a remarkable experience—a first in MCC's history and one that still resonates with me today. After Honduras, MCC successfully completed compacts with eight other countries through the end of 2012. Through modernized ports in Cape Verde and Benin, improved agriculture in Georgia and Armenia and new roads in Vanuatu, Ghana and El Salvador, MCC's investments are providing critical infrastructure to fuel economic growth to break the cycle of poverty for millions worldwide.

This first group of compact closeouts also teaches us valuable lessons about how MCC's principles work in practice. As a learning organization, we are constantly looking to improve how we do business and taking on the challenging yet critical work to perform the necessary monitoring and evaluation to honestly, fully and transparently measure the entire “continuum of results” that flow from our investments.

What I have seen so far is incredibly encouraging: farmers who are producing higher yields; households connected to water, sanitation and electricity for the first time; entrepreneurs getting access to the capital they need to start or grow their businesses; and students attending classes in renovated schools that provide healthy learning environments. I have watched countries take on the difficult work of reforming their policies to promote strong democratic governance and adopt unprecedented measures to maintain new infrastructure and improve business conditions. I have observed partners consult with all segments of their societies—the private sector, civil society, nonprofit actors, women, marginalized groups—in order to design and implement homegrown development solutions. I have seen communities insist on the highest standard of transparency to ensure that governments and donor partners are accountable. I am proud of the fact that MCC is pushing even beyond these achievements as we learn now from the findings of our first independent evaluations, test assumptions and raise a new standard for evidence-based decision-making that is helping to define the future of development. I believe MCC’s legacy will be defined, in large part, by this groundbreaking work to assess the tangible and lasting impact of our investments.

When I came to MCC, I set five priorities for the agency. First, I wanted to deepen the focus on results, including an emphasis on tracking the effect MCC has on beneficiaries throughout the life of a compact and beyond. Second, I believe MCC should maintain a strong commitment to policy reform, which often can help countries attract the kinds of private-sector investments that fuel and sustain economic growth. Third, I stressed the need for MCC to establish and maintain strong partnerships, including with the private sector and nongovernmental organizations. Fourth, since gender plays a crucial role in development and poverty reduction, I strengthened gender considerations throughout compact design and implementation in real and meaningful ways. Lastly, I reorganized MCC’s structure to maximize organizational effectiveness.

MCC helped Honduran farmers grow high-value crops, access credit and more efficiently move their goods to markets.

In these ways, MCC's model helps ensure U.S. taxpayer dollars are effectively serving U.S. and our partner countries' national interests to see their people become more prosperous and well governed. And when countries do not remain committed to good governance, we are prepared to make the tough decision to terminate our partnership, as we did in Madagascar and Mali.

Through MCC's investments, we are seeing how the generosity of the American people is helping our brothers and sisters across the world build sustainable communities. Across our partner countries, people are finding homegrown solutions to reduce poverty, build capacity to tackle roadblocks to growth and achieve self-sufficiency. This book provides a look at the progress we have made. We hope our partners enjoy seeing these pictures of opportunity and growth as much as we do.

Daniel W. Yohannes
Chief Executive Officer

Focus on Results

Improved roads in Honduras will help more than 1.3 million people. Upgrades to the country's main port will affect almost all of Benin's 8.8 million people. And improved irrigated agriculture across nine compact countries in Africa, Eastern Europe and Central America will make farming a more reliable livelihood for rural households supporting more than 1.7 million people.

These results—helping people enjoy a better quality of life immediately and well into the future—are at the core of the Millennium Challenge Corporation's approach to foreign assistance. Since its founding in 2004, MCC has changed the conversation about how best to deliver smart U.S. foreign aid by focusing on good policies, country ownership and results.

MCC will ultimately be judged by the results it produces. That is why MCC defines, measures and tracks results along a comprehensive "continuum of results," from policy reform and project outputs to outcomes and ultimate impacts.

El Salvador's Northern Zone was considered a forgotten area and had been largely cut off from the rest of the country. MCC's five-year, $461 million compact with El Salvador put the foundation in place for a more prosperous future: roads, bridges, water, electrification, sanitation, and a trained workforce. The compact rehabilitated or constructed more than 220 kilometers of road and 23 bridges of a national eastwest highway that connects the Northern Zone with the rest of the country. MCC also assisted an estimated 17,500 out of a total of 32,000 producers in selected value chains in the Northern Zone by providing training, seeds, equipment, and technical assistance. And the compact's Human Development Project invested in education, water, sanitation, and electrification.

MCC tracks policy reforms associated with its investments, like reforms to ensure that the roads it finances are maintained and that conditions are improved for a new business to formally register or get its products through customs. MCC assesses inputs and outputs that indicate whether projects are on track, like how much money has been invested in a given quarter and the number of farmers trained or the miles of new roads built. MCC also measures interim outcomes as programs reach completion, like increased traffic volume on improved roads—signaling more commerce—or if farmers are growing more high-value crops to sell. And, because the ultimate result MCC is committed to producing and attributing to its program is to create the conditions for increased economic growth that will benefit everyone—including the poor—it turns to independent impact evaluations to determine if the income gains it seeks are a direct result of its investments. MCC hires outside firms for these evaluations to determine if investments actually did increase household incomes. Ultimately, MCC looks to measure the lasting effect of its work on the lives of the poor.

A focus on results

Some of the top lessons MCC has learned putting its "focus on results" principle into practice:

1. Impact evaluations allow MCC to keep our eyes on the "results" prize and can become a global asset for the development community. However, the best evaluation approach depends on the type of program evaluated, and the type of questions MCC seeks to answer.
2. Robust economic analysis, monitoring and evaluation take resources—but are worth it in terms of improving project design, course correcting, and learning what works and what doesn't.
3. Data quality is the cornerstone of a robust focus on results.
4. MCC is helping to change the evaluation culture in partner countries.
5. Transparency means sharing good and bad results as an important part of accountability and learning.

Read Principles into Practice: Focus on Results for more information.

MCC's focus on results is built on a culture of constant transparency and critical learning. MCC's commitment to transparency means making all results—positive and negative—public. By examining what works and what does not work in past investments, MCC is able to inform better development projects that it and the entire development community can pursue.

By the end of 2012, 11 MCC compacts will have closed or been completed: Madagascar, Honduras, Cape Verde, Georgia, Vanuatu, Nicaragua, Armenia, Benin, Ghana, Mali, and El Salvador. The results from these compacts are encouraging. For example, in El Salvador, dairy farmers who received MCC-funded training saw their annual farm income increase by more than $1,800 compared to farmers who did not receive assistance. After MCC helped strengthen the national inspection system, the Government of Cape Verde lifted a 25-year embargo on inter-island agricultural exports from Santo Antão, opening new markets for farmers on that island. And poverty rates in Vanuatu's rural Efate region, where MCC's investment improved road transport, have fallen by half.

These are the kinds of results that will have a long-term impact on the lives of the poor in partner countries worldwide. These are the kinds of changes that lift millions out of poverty. These are the real stories of progress captured in the pages to follow.

When a New Vision meets Reality

Few imagined 2002 would be the time when help for the world's poor would take center stage.

The global economy was in a slump. Contributions to foreign assistance were at a historic low. Skeptics in the United States and beyond worried their money was being wasted on bad projects or going to autocratic regimes. And the attacks of September 11 highlighted the link between security and economic prosperity around the world.

It was the right time for new thinking and a new approach.

More than 50 heads of state—along with representatives from the United Nations, the donor community, NGOs, and civil society—met in Mexico to determine a better way to finance development. There was talk of poverty reduction, new partnerships, international trade, country ownership, and linking aid to good governance.

For the U.S. Government, the talk meant creating an agency that would embody a new, practical approach to development. President George W. Bush announced this agency would "promote development from the bottom up, helping citizens find the tools and training and technologies to seize the opportunities of the global economy."

Less than two years later and with strong bipartisan support, the U.S. Congress established the Millennium Challenge Corporation to fulfill that vision.

From the start, MCC was designed to operate differently: It embraced innovation, held potential partner countries to strict policy standards, relied on country ownership and leadership to design and implement cost-effective projects, and committed itself to transparency and accountability. It had a singular mission: reduce global poverty through economic growth. A board of directors composed of U.S. Government and private-sector officials drove home the idea that MCC would take a business-like approach to foreign development to provide structure and ensure results.

Solar power, Tanzania

And even before its creation, MCC attracted a diverse group of supporters united around the common goal of reducing global poverty.

Just days before the Mexico conference, President Bush provided the first hints of this new approach to foreign aid during a speech at the Inter-American Development Bank. He painted a picture that this would be a different kind of partnership. The president spoke at the bank's headquarters in Washington; seated behind him were a rock star, a Catholic priest and the president of the world's largest development agency.

These leaders came from diverse backgrounds: President Bush was a former governor and co-owner of the Texas Rangers. Bono, the Irish lead singer of U2, used his fame to keep the plight of Africa's neediest on the world's conscience. Cardinal Theodore McCarrick was the Catholic archbishop of Washington who spoke seven languages and had a long history of serving the world's most vulnerable. And James Wolfensohn was the president of the World Bank. They also shared a vision that global poverty reduction should be a priority for the United States, and that this new approach would help the country's foreign assistance have a greater impact and produce tangible results.

Reform is Challenging

Policy and institutional reform is critical to the success, impact and sustainability of MCC's investments. What operational lessons has MCC learned to be more strategic, purposeful and deliberate in its approach to policy and institutional reform?

1. Thoroughly understand how policy and institutional issues affect the problems that MCC and partner countries aim to solve, and then determine what reforms to include in a compact partnership and structure programs to maximize impact.
2. Make policy and institutional reform considerations a priority early in compact design and development.
3. Understand the politics of reform, including potential winners and losers, support for reform within and outside of government, engagement by other donors, likely timelines, and potential roadblocks.
4. Build local institutional capacity to support the sustainability of reform.

Eight years later—and $9.1 billion invested in 25 MCC partner countries—this idealistic vision has given way both to marked improvements for millions of beneficiaries but also critical lessons for dealing with the difficult realities of sustainably and effectively changing the lives of the world's poor.

Changing business as usual

For decades, foreign aid has been a contentious issue. Critics pointed to examples of wasteful projects or aid money that helped support repressive regimes. Proponents provided anecdotes of lives transformed and how foreign aid deepens goodwill toward the United States.

MCC was created to be a different approach, built upon the successes of the past and designed to address many concerns about the status quo of foreign aid. The agency is selective, focuses on results, ensures accountability of tax dollars, bases decisions on evidence, and is committed to a high level of transparency. It is also small, with a limit of 300 full-time federal employees, many of whom left private sector firms to be a part of MCC's new model.

From the beginning, MCC pledged to work only with poor but well governed countries that demonstrated commitment to ruling justly, economic freedom and investing in their citizens. MCC tracks these commitments by using a range of third-party indicators that measure factors like control of corruption, expenditures on primary education, fiscal policy, and natural resource protection. For developing countries across the world, a partnership with MCC is a source of pride and a coveted stamp of approval, signaling that the country is primed for outside investment.

The high-profile nature of MCC's compacts often provides governments the impetus to reform crucial policies. Observers have dubbed a country's willingness to unilaterally reform policies with the goal of becoming eligible for a compact the "MCC Effect." Efforts by Côte d'Ivoire, Sierra Leone, Senegal, and Niger to assess or eliminate legal restrictions against women's participation in their economies exemplify this effect in action.

After selecting the right partners, MCC delivers foreign aid in a whole new way. MCC and partner countries sign compacts with a strict five-year deadline and work together to address the challenges that most hinder economic growth. The five-year compacts help partner countries plan development strategies around MCC investments. Open bidding on program-related contracts helps ensure that MCC and partner countries get the best deal on investments while providing U.S. taxpayers the best value for their hard-earned tax dollars. In addition to compacts, MCC also provides assistance through smaller Threshold Program grants to help countries reform policies with the hope of potentially becoming eligible for a compact.

Country ownership is a cornerstone of this new approach. Potential partner countries are required to identify their own priorities for sustainable economic growth and poverty reduction. These governments consult with a wide range of society on these priorities, and then they work closely with MCC officials to help refine project proposals. The country creates a Millennium Challenge Account (MCA) to implement the compact using locally recruited professionals who will contribute to development long after compact completion. MCC establishes a resident mission of one or two full-time U.S. staff in each partner country to help implement the compact; this small footprint ensures that the partner country leads implementation, which helps provide its citizens with valuable experience they can use to build up their own skills to further develop their country.

Another key MCC difference is the focus on results and evidence-based decision making throughout the process, from compact design to implementation and beyond. Proposed projects undergo economic analyses to provide an estimate on how beneficiaries' incomes will improve. Monitoring and evaluation teams track selected indicators across each project and report their findings quarterly. And after a compact closes, MCC hires independent firms to conduct independent evaluations on every major activity it funds—of which 40 percent to date are impact evaluations that establish a counterfactual and use rigorous scientific methods to determine the direct effect of compact investments. This allows MCC to share data about what works—and doesn't—in international development by carefully analyzing the impacts of its investments.

Transparency and accountability are woven throughout this entire process. Results data is updated quarterly on MCC's website. MCC was created and continues to operate at a time when the American people ask difficult questions about how well their tax dollars are being spent—and this commitment to transparency provides answers to many of those questions, even when the answers reveal challenges or missed targets.

Taken together, these new approaches in an entirely new agency represent the largest shift in U.S. foreign aid practices in decades. Yet some of these lofty ideals were quickly put to the test.

Encountering challenges

One common thread ran through MCC's early compacts: successfully designing and implementing large-scale projects proved difficult. MCC struggled at times to put its core principles into practice because of limited country capacity and the tension between showing short-term results and planning for long-term impacts. Many supporters also assumed that one compact could transform an entire country within five years.


Vocational training, Mongolia

First, in the face of limited country capacity—but with an unwavering commitment to country ownership—MCC still expected partners to conduct evidence-based analysis upfront, consult extensively with their citizens, engage in project design and planning, and demonstrate a real willingness to making the necessary policy reforms that would enable capital investments to pay dividends and deliver real and sustainable impact. For example, the Government of Nicaragua originally proposed renewable energy and rural electrification projects, but the policy environment around independent regulation, tariff rates and restructuring of the electricity sector remained too uncertain and raised significant concerns about the potential results and sustainability of the projects.

Lessons on Country Ownership

Practicing the principle of country ownership over the past eight years has given MCC insights into what works best.

1. Country ownership means a partnership based on mutual accountability that benefits from structure and clear expectations.
2. Country ownership requires a balancing act between MCC principles, operational approaches and country priorities.
3. Country ownership goes beyond national governments, both in setting investment priorities in compact development and in implementing compact programs.
4. Country ownership includes capacity building, but not everything has to be about capacity

building.
5. Country ownership includes using elements of country systems where feasible, but doesn't mean that countries have to do everything.
6. Country ownership pays off in both tangible and intangible ways, both for results and for leveraging policy reform.

To learn more, read Principles into Practice: Country Ownership.

MCC overcame capacity issues in Ghana by providing extensive training to officials at the local level to conduct procurements for community services like water, sanitation, schools, and electricity. MCC also established a capacity-building initiative to train country partners in project management, construction contracting, procurement, accounting, and other core skills needed to ensure effective oversight over U.S. taxpayer funding.

Second, several early partner countries backslid on their commitments to good governance, economic freedom and investments in their citizens during compact design and implementation, sometimes leading to an operational hold or termination of MCC funds. In addition to terminating the Madagascar and Mali compacts, MCC terminated parts of the Honduras and Nicaragua compacts and placed a hold on a project in Armenia, which was kept in place until the end of the compact.

Third, the agency was caught in the tension between looking for early results versus planning for effective program implementation and long-term growth. With the fanfare that accompanied MCC's launch, stakeholders wanted to see quick results—even though projects can take years to properly design and then implement.

Fourth, many early compacts were overly ambitious in their goals given budget realities. This led to rescopings or reducing the planned scope of MCC's investment in order to stay within the allocated funding envelope.

Despite the early struggles, a pattern began to emerge: MCC was learning lessons and making course corrections—and its investments were helping poor people lift themselves out of poverty.

Embracing a commitment to learning

As MCC evolved from a start-up with big ideas to a maturing organization, it increasingly focused on embracing a culture of change, adopting processes for continuous improvement in how it does business.

Within this culture of learning, MCC made important changes to how it selected countries, designed compacts, implemented projects, integrated gender into project design and implementation, managed risk, monitored fraud and corruption, factored in social and environmental assessments, and assessed results. MCC reaffirmed its commitment to transparency, reorganized to maximize organizational and staff efficiency and published studies about what did and did not work.

MCC modified its country selection criteria in 2011 to include new data related to economic and political governance. MCC introduced indicators to track Internet freedom, access to credit and gender equality, as well as adding a “hard hurdle” related to political rights and civil liberties that a country must pass to be considered for a compact. MCC also introduced a selection process for countries pursuing subsequent compacts that requires potential partner countries to show meaningful progress toward achieving first compact results before being considered for a second compact.

The agency improved its approach to compact development. The most significant reform was the introduction of a constraints analysis, a process by which MCC’s economists identify the root causes that deter households and firms from making investments of their financial resources, time and effort that would significantly increase their incomes. The results of these studies help inform compact projects designed to remove those barriers to investment.

MCC also created guidelines aimed at enhancing and streamlining the development and implementation of compacts to provide for better advance planning, simpler processes and clearer expectations for MCC partner countries. These guidelines promoted compacts with a sharper focus, such as the $355 million partnership with Zambia focused on a single project: improving water supply, sanitation and drainage infrastructure in Zambia's capital, Lusaka, and a greater emphasis on improving policies that support sectors critical to economic advancement.

In 2012, MCC strengthened its commitment to health, safety and the environment by adopting the International Finance Corporation’s performance standards. MCC’s integrated approach to environmental and social performance now begins at the earliest stages of project design and continues throughout implementation, involving stakeholders at all levels, from government ministries to local authorities and, most importantly, the farmers, shopkeepers and other people whose livelihoods are affected on the ground.

MCC reinforced its focus on gender issues, sending a clear message: Integrating women in society is not only the right thing to do, but it can also help a country’s economy boom. In 2011, it unveiled a revamped country scorecard that measured a government’s commitment to promoting gender equality. The indicator examines equality in 10 areas: if men and women have equal opportunity to get a job, register a business, sign a contract, open a bank account, choose where to live, get passports, travel domestically and abroad, pass citizenship on to their children, and become heads of households.

Roadmap to Stronger Gender Integration

Because gender inequality can be a significant constraint to economic growth and poverty reduction, MCC continues to assess lessons learned and best practices for strengthening operational procedures and process to lead to better gender integration in MCC-funded projects.

1. Gender integration is more than a focus on women.
2. Tackling the relationships among growth, poverty reduction and gender equality in compact

development is complex and challenging.
3. Advancing gender equality often requires pushing the policy envelope as well as project design.
4. Systematic and early gender integration is critical in infrastructure projects.
5. Thorough understanding of programmatic results requires gender analysis as an integral rather than an "add-on" feature.

To learn more, read Principles into Practice: Gender Equality and Poverty Reduction through Growth.

MCC also strengthened the role gender played during compact design and implementation. The creation of guidelines in 2011 provided explicit operational procedures, requirements and accountability mechanisms to ensure that gender is effectively integrated throughout the compact. For example, staff working on the development of Benin's proposed second compact created a matrix to identify the relationships between growth constraints by sector as well as by gender, other social inequalities and investment opportunities. After a decision to focus on certain sectors is made, further social and gender analysis can go in-depth in these sectors. This analysis can help better understand the nature of the underlying causes of the constraints and the implications of different choices regarding project selection and their effects on potential beneficiaries.

MCC also changed internal policies and organization in order to improve project implementation. Its 2009 policy on preventing, detecting and remediating fraud and corruption provides a number of tools, including a requirement for companies receiving MCC funds to certify they have acceptable commitments and procedures in place to address the potential for fraudulent and corrupt practices in their MCC-funded work. MCAs must now develop anti-fraud and corruption risk assessments and action plans, and MCA staff must undergo fraud and corruption training. The agency also created the Investment and Risk Management division to identify, assess and manage risk during compact development and implementation with the aim of safeguarding taxpayer-funded investments from unnecessary risks. The division also performs reviews of projects worldwide and identifies areas where operations could be improved.

The lessons from MCC's first eight years are not just meant to improve the agency's model and operations; MCC hopes to impact the operations of the development community worldwide. This concerted outreach includes the Principles into Practice series, which takes a hard look at what it takes to make MCC's core principles operational. The reports focus on a variety of results—positive and negative, intended and unintended—that provide lessons for MCC and the donor community. The series has examined issues such as the focus on results, country ownership, property rights and land policy, irrigated agriculture, and gender integration.

Producing results

In its first eight years, the agency signed 26 compacts worth $9.1 billion. It has formed partnerships with countries in Africa, Europe, Asia, the Americas, and the Pacific. More than a third of MCC's investments have gone to the transport infrastructure sector, and another 18 percent have gone to agriculture, making MCC one of the leaders in promoting food security and agricultural productivity at a time when investments in agriculture were historically low. The agency signed compacts with the world's third-most populous country (Indonesia, population: 238 million) and one of the least-populated (Vanuatu, population: 234,000).

As of June 2012, MCC has financed training for more than 200,000 farmers, invested in the education of over 244,000 students, improved nearly 1,600 kilometers of roads, and connected almost 40,000 households to an improved water supply. Other investments have branched into new areas, like the construction of health clinics in Lesotho.

In El Salvador, few roads linked the Northern Zone with the more prosperous south. MCC invested $461 million in the Northern Zone, helping build roads, provide farmer training, expand access to crop insurance and credit guarantees, build vocational schools, electrify remote towns, and link communities with clean water.

"We now live in a new Northern Zone," one dairy farmer said. "We are now living in a land of opportunity."

This kind of broadly shared change is at the heart of the MCC model.

Some results are far less visible but offer the promise of changes in governments, economies and societies. MCC works with its partner countries to reform policies that enhance the impact and sustainability of investments.

These policy reforms can take place before compacts: One requirement of MCC's funding in Lesotho was a change in the law that placed married women at the same legal status as minors. In 2006, the kingdom passed the Legal Capacity of Married Persons Act, which means women now have equal access to economic resources and expanded opportunities for meaningful participation in the economy.

Reforms can take place during compacts: Entrepreneurs in Honduras have greater access to credit because the government enacted a new secured transaction law and established a movable property registry system that allows individuals to use as collateral property they own, such as tractors, sewing machines and shop inventory. The registry began operations in January 2011 and registered almost 3,500 guarantees in its first year. The registry has served as a model for potential reform in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Panama, Peru, Jamaica, and other Caribbean countries.

Other policy reforms occur during and after implementation: During its first compact, Cape Verde graduated from the low income country category to the more competitive lower middle income group, in which it did not pass enough MCC indicators to be eligible for a new compact. Cape Verde made a dedicated effort to address areas of weak policy performance—including improving immunization rates and business start-up—and by 2010 had improved to be considered eligible for a second compact.

And in one of the most visible cases yet of a compact helping leverage serious policy reform, MCC suspended the $350 million Malawi Compact after the government's heavy-handed response to nationwide protests in 2011. When President Joyce Banda took office following the death of President Bingu wa Mutharika in April 2012, she immediately began to address the concerns that led MCC to suspend its assistance. By June, Malawi adopted new laws, new patterns of action, a renewed respect for human rights, and a stronger, more sustainable economic policy. In response, MCC's Board approved the reinstatement of Malawi's compact, demonstrating a compact's power to incentivize policy reforms.

Changing the conversation

Standing before a gathering of world leaders, President Barack Obama took center stage at the U.N. General Assembly in 2010 to discuss his administration's approach to helping the world's poor.

Recognizing that "the old ways will not suffice," President Obama announced the U.S. Global Development Policy, the first of its kind by a U.S. administration. It recognized the vital role development plays in American national security and laid out the U.S. Government's strategy for promoting broad-based, sustainable growth around the world. It focused on economic growth, selectivity, country-led planning, transparency, and accountability for results.

Road construction, Mozambique

The central purpose of development, President Obama said, was to create the conditions where assistance was no longer needed. That meant seeking partners who want to build their own capacity to pursue sustainable development.

"And building in part on the lessons of the Millennium Challenge Corporation, which has helped countries like El Salvador build rural roads and raise the incomes of its people, we will invest in the capacity of countries that are proving their commitment to development," he said.

By crafting his global development policy on MCC's principles, President Obama demonstrated that global poverty reduction transcends politics. Through changes of administrations and in Congress, MCC retained strong bipartisan support and helped play an outsized role in the way the U.S. Government and others approach development assistance. In the nascent Partnership for Growth—a partnership between the United States and a select group of high-performing developing countries that works to accelerate and sustain broad-based economic growth—MCC's evidence-based decision-making, country selection process and technical expertise served as the initiative's foundation.

MCC also contributed to the results and accountability framework of Feed the Future, the Obama administration's marquee food security initiative. This involved defining performance indicators to monitor U.S. Government investments in food security and outcomes across countries and agencies. It meant coordinating whole-of-government reporting on global food security performance. It entailed using economic analysis during strategic planning and project design at USAID's Bureau for Food Security to emphasize rigorous impact evaluations.

The World Bank's Program-for-Results specifically mentions MCC too as a defining influence, drawing on such MCC lessons as the link between transparency, accountability and results, as well as differing definitions of results during different times in a project cycle.

In addition, MCC received praise for its commitment to transparency and results. Publish What You Fund hailed MCC for being one of only three agencies to publish obligation and expenditure data on the Foreign Assistance Dashboard. The Organization for Economic Co-operation and Development recognized MCC's leadership in measuring development results and found that "through the MCC, the US has shown that it can deliver development co-operation that is in line with the principles on effective aid."

And in 2012, MCC launched its Open Data Catalog, where it posts financial, performance and evaluation data in machine-readable format. By putting the data and evidence that it uses to make decisions and measure results in the hands of the larger community, MCC hopes to foster innovative development practices.

Looking toward the future

MCC has entered a new era. The Threshold Program has a refined focus. In February 2012, MCC signed the agency's first second compact, a $66 million agreement with Cape Verde. There remains momentum for deeper collaboration with the private sector. Tough standards for second compacts help ensure the agency works with deserving partners while continuing to provide the incentive for partner countries to further reforms.

It is an era of introspection. As MCC ends its eighth year, it is receiving the first results of its independent impact evaluations, which measure whether its programs helped raise beneficiary income. Some results are good and some are inconclusive, but all offer valuable lessons. Learning from those lessons will help the agency design better programs and better impact evaluations moving forward.

It is an era of influence. MCC is showing that its non-traditional model for delivering development assistance is influencing practices throughout the U.S. Government and beyond. For example, the agency's model and focus on results played a prominent role in the discussions at the 4th High Level Forum on Aid Effectiveness in Busan, South Korea, in 2011.

It is an era of innovation. MCC will continue to learn, evolve and make development assistance more business-like with a distinct commitment to impact, accountability, transparency, and partnership. MCC remains committed to setting a new standard for development effectiveness that will continue to innovate and inspire the way forward in an increasingly interconnected world.

This is good news for the American people, who rightfully demand more from their government as it spends their tax dollars to fight global poverty and promote economic growth at home and abroad. And this is good news for the world's poor, many of whom now will have the opportunity to pull themselves out of poverty and create a more prosperous future.

About one-third of MCC investments are in transportation, the largest of any sector in the agency's portfolio. Road rehabilitation and construction lower transport costs by reducing travel time and vehicle operating costs; improve access to public services like health and education, particularly for the rural poor; and facilitate international and regional trade. With agriculture projects, transportation infrastructure primarily links producers to markets for their goods and to inputs for their production year-round.

Under the leadership of Daniel W. Yohannes, MCC moved from a start-up culture to a mature, business-like approach to delivering development assistance, grounded in results, accountability and transparency. Yohannes, with a 30-year career in the private sector, brought five priorities to his tenure as CEO. This approach sets the foundation for MCC's future success.

A renewed focus on results	MCC strengthened its economic analysis and monitoring of program outcomes to better capture and communicate results, as well as to continually improve operations.	To continue its rigorous focus on results, MCC released its first set of independent impact evaluations. MCC's use of these studies, which rely on scientific methodology to study a potential link between investments and income growth, has established the agency as a leader on accountability and learning within the international development community.
Increased use of new partnerships, including with the private sector	MCC leveraged its work with the work of other organizations, non-traditional partners and agencies. It increased the emphasis placed on private sector participation and on the use of innovative program approaches.	Symbion Power of Washington, D.C., won a contract as part of the Tanzania Compact's Energy Sector Project and has since expanded its investment in East Africa, including the purchase of a 120-megawatt power plant that had been sitting idle for three years. Symbion and Pike Electric of Mount Airy, North Carolina, also sent senior Tanzanian workers to the Northwest Lineman College in Idaho to learn about electrical systems, accident prevention and construction methods—skills they will use to train others in Tanzania.

Emphasis on effective policy reform	MCC recognized that continued policy reforms at the national and sector levels were essential for bolstering the sustainability of its investments. It focused internal resources and leveraged external expertise to support policy improvement in partner countries and to integrate sector policy reform more effectively in project design.	Entrepreneurs in Honduras have greater access to credit because the government enacted a new secured transaction law and established a movable property registry system that allows individuals to use as collateral property they own, such as tractors, sewing machines and shop inventory. The registry began operations in January 2011 and registered almost 3,500 guarantees in its first year. It has served as a model for potential reform in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Panama, Peru, Jamaica, and other Caribbean countries.
Strengthened focus on gender and social assessment	MCC ensured greater emphasis on gender and social assessment, with the knowledge that these issues play a central role in reducing poverty.	MCC increased the number of staff dedicated to gender and social integration. In 2011, MCC updated its Gender Policy and released guidelines to integrate gender into current and future investments. The same year, it began measuring a government's commitment to promoting gender equality during partner country selection. MCC also requires that partners develop a social and gender integration plan. And MCC invests in greater accountability by improving the mechanisms for gender to be part of economic analysis and monitoring and evaluation.

Improving organizational effectiveness	MCC realigned its structure to improve the use of limited resources and strive toward maximum effectiveness.	MCC streamlined the process for the development of compacts and created a more rigorous selection process for countries seeking subsequent compacts. It also adopted a policy on preventing, detecting and resolving fraud and corruption, as well as other policies to ensure maximum effectiveness of taxpayer resources. The agency launched an Investment and Risk Management division for identifying, assessing and managing risk during compact development and implementation and the Finance, Investment and Trade team for implementing the agency's revamped private sector strategy.

Timeline

Compact Completions

[Honduras]

In 2005, Honduras became the second country to sign a compact with MCC. Low agricultural productivity and high transportation costs were identified as key constraints to economic growth, limiting Honduras' ability to take advantage of its strategic location. The compact was designed to help small-scale farmers become small-scale entrepreneurs through training to improve their productivity, access to new markets and access to credit. It is also expected to reduce transportation costs through improvements in road networks to enhance market access and foster greater market integration.

Visit the compact page

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[Cape Verde]

Cape Verde identified the need for investments in infrastructure, watershed management and private sector development as essential for creating economic opportunity for its people. The compact was designed to raise incomes by reducing transportation costs by rehabilitating roads, bridges and the Port of Praia; increasing agricultural productivity through investments in water management and soil conservation, technology transfer, access to credit, and sustainable microfinance institutions; and developing the private sector by reducing obstacles to investment.

[Visit the compact page]

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Georgia

Georgia's compact addressed two main barriers to economic growth: lack of reliable infrastructure and slow business development, particularly agribusiness. The Government of Georgia and MCC agreed that lifting these barriers through a program of investments focused on the regions outside the capital, Tbilisi, would help unlock the entire country's economic growth potential. The compact projects focused on rehabilitating regional infrastructure and enterprise development to improve the lives of the poor by improving access to jobs, markets and basic services, as well as providing capital for enterprise development.

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Vanuatu

Agriculture and tourism are central to Vanuatu's growth. Under-developed, sub-standard and poorly maintained transportation infrastructure was identified as a critical constraint to economic activity and private sector investment in the agriculture and tourism sectors. The compact sought to reduce poverty and stimulate economic growth by reducing transportation costs and improving access to transportation, markets and social services through the upgrading and sealing of the country's two most important national roads, the Efate Ring Road (92.5 kilometers) and the Santo East Coast Road (57.2 kilometers). The compact also included initiatives to strengthen the operation and maintenance of Vanuatu's transport infrastructure network.

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Nicaragua

After consultations with a diverse set of government and civil society stakeholders, Nicaragua identified a regional development strategy for MCC to improve insecure property rights, underdeveloped infrastructure and low-value agricultural production. The compact focused on creating an engine for economic growth in the country's northwest region, a poor region with significant growth potential because of its fertile land and connection to markets in Honduras and El Salvador.

Visit the compact page

Armenia

MCC's compact with Armenia, which sought to strengthen the agricultural sector, included one of the country's largest irrigation infrastructure projects to date. The partnership also included assistance to the nation's farmers, agribusinesses and water supply institutions, as well as investments in rural road construction and maintenance. The increase in productivity of farm households through improved water supply, higher yields, higher value crops, and a more competitive agricultural sector should catalyze economic growth, improve food security and reduce poverty in Armenia for decades to come.

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Benin

The Benin Compact sought to improve access to markets by eliminating constraints hindering the flow of goods through the Port of Cotonou; expand access to financial services through grants for micro-, small- and medium-sized enterprises and through other activities to strengthen the microfinance sector; improve the legal and administrative instruments of land tenure to increase security and allow more citizens to have access to land; and provide access to the justice system by strengthening and streamlining the existing judicial system through training, procedural improvements and construction of new courthouses.

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Ghana

Ghana's compact sought to raise farmer incomes through private sector-led agribusiness development. It consists of three types of strategic investments to transform and modernize the agricultural sector in order to promote economic growth through projects to strengthen production, more efficiently move goods to market and improve farm communities and farmers' livelihoods and living conditions.

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El Salvador

The El Salvador Compact sought to reduce poverty in the country's Northern Zone by improving human and physical capital and increasing production and employment. The compact also seeks to reduce travel costs and time in El Salvador and throughout Central America.

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Madagascar

MCC and Madagascar signed a $110 million compact in 2005 to increase land security, modernize the financial sector and spur investment in farms and other rural businesses. In May 2009, MCC's Board of Directors authorized the orderly termination of the compact with Madagascar because of the military coup and undemocratic transfer of power that occurred in March 2009. The compact was formally terminated by MCC on August 31, 2009.

Visit the compact page

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Mali

MCC and Mali signed a $460 million compact in 2006 to create economic growth through investments in the Bamako Sénou Airport and an irrigation perimeter in the Alatona zone. MCC terminated the compact August 24, 2012, following the undemocratic change of government in the country.

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Evolution of MCC's Threshold Program

In July 2005, MCC approved its first Threshold Program grant in the amount of $13 million to Burkina Faso to improve girls' primary education completion rates. Since then, 20 other countries have implemented 22 additional Threshold Programs, totaling nearly $495 million, to improve their policy performance.

Three-quarters of Threshold Program funding has been dedicated to anti-corruption and rule of law reforms.

Threshold Programs

Africa	Burkina Faso*, Kenya, Liberia, Malawi*, Niger, Rwanda, São Tomé and Príncipe, Tanzania*, Uganda, Zambia*
Asia	Indonesia*, Kyrgyz Republic, Philippines*, Timor-Leste
Eastern Europe and the Middle East	Albania I, Albania II, Jordan*, Moldova*, Ukraine
The Americas	Guyana, Paraguay I, Paraguay II, Peru
*In addition to completing a Threshold Program, this country also signed a compact.	

Reflecting lessons learned from independent program evaluations and an extensive internal review, the Threshold Program was redesigned to employ a targeted policy focus and program design that is based on deeper diagnostic, feasibility and cost-effectiveness analyses. It requires increased country ownership and participation. To develop a program, the process now includes an analysis to identify the binding constraints to economic growth as well as deeper, sector-specific analyses. These analyses are performed jointly by partner country economists and MCC and are tailored for each country's policy environment and resource capacity. Four countries—Tunisia, Honduras, Niger, and Nepal—are currently participating in MCC's redesigned Threshold Program.

Reducing Poverty Through Growth

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